FIELD SALES EXPLANATION/RATIONALE

CLARIFICATION # 1

We have learned of Direct Buying Customers buying competitive brands and shipping them to subsidiary organizations who in turn ship this product to retail. In some instances this product was not initially reported to us as sales to retail.

Without proper reporting, competitive product ends up at retail and is not accounted for in any PARTNERS calculations. We want to avoid distorted retail share data and improper performance payments.

CLARIFICATION # 2

Some Direct Accounts own and operate cigarette outlets or other retail stores, which may buy competing brands from sources other than RJR.

Unless this information is reported to us, we cannot calculate accurate sales to retail S.O.M. figures and performance payments could be overstated.

This rule does not mean that Direct Buying Chains which utilize fill-in jobbers for miscellaneous industry brands (multiple company brands, including ours) in small quantities must report these purchases/sales. You have the ability to approve the Chain excluding this product from its reporting if you are satisfied that these fill-in purchases are being made on an even-handed basis and are not skewed in a way that distorts share calculations.

CLARIFICATION # 3

We have situations nationally where Liggett has a Master Distributor in place which is buying Liggett product and supplying it to as many as 25 smaller Direct Buying Customers. Requiring such a Master Distributor, which is also our Direct Account, to include this product in its sales information reporting would severely distort our RJR "to Retail" SOM. The receiving Directs that are Partners participants should be reporting their sales to retail.

We do not want to financially reward a Direct Buying Customer for volume sold to non-retail customers since PARTNERS was designed to pay on retail sales volume.

If the Direct Account or its affiliates is shipping all industry brands to a non-retail customer such as a sub-jobber and that sub-jobber or other customer that does not buy direct from any cigarette manufacturer, then all sales should be reported. The critical criteria for shipments of a Direct Account to be included in its sales information reports, is that the receiving location not be on direct list with any cigarette manufacturer. If the receiving location is on Direct listing with one or more cigarette manufacturers, all shipments to the receiving location are excluded.

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R. J. REYNOLDS WHOLESALE PARTNERS PROGRAM

RULES AND PROCEDURES CLARIFICATION

1. All products purchased by the Direct Account or any affiliates, including its subsidiaries and its parent company, and sold to retail customers must be <u>included</u> in the Direct Account's sales information reporting.

2. Any product purchased by retail stores or other outlets owned and operated by the Direct Account or any affiliates must be <u>included</u> in the Direct Account's sales information reporting when if in RJR's judgement these purchases are skewed to selected brands resulting in distorted "sales to retail" S.O.M. calculations.

3. Any products purchased by the Direct Account or any affiliates that are sold to other direct buying customers of any cigarette manufacturer must be <u>excluded</u> from the PARTNERS Program sales information reporting by the selling Direct Account.

4. Direct Accounts are subject to audit as a condition of participation in the PARTNERS Program. Direct Accounts are also required to make available any relevant books and records of its affiliates for audit. It is the responsibility of the PARTNERS participant to require that the following records be maintained for current and a minimum of two prior program periods:

    - Invoices and disbursement records related to the purchase of product from manufacturers and any other source(s) from which product is obtained.

    - Inventory records, by manufacturer product code, coinciding with the beginning and ending dates of each program period.

    - Invoices and cash receipt records related to the sale of product to retailers or any other customer(s).

    - Computerized records to support the data provided to RJR.

Omitting relevant data results in distorted share calculations and could lead to loss of eligibility for payment in a current program period and disqualification from participation in future performance programs. Any such conduct could also endanger the account's direct purchasing status.

Note: Audits will be conducted on an ongoing basis as part of our normal business practice. Being audited in no way indicates RJR has a concern with the legitimacy of an Account reporting since audits will be conducted at minimum quarterly by random sample.

REVIEW DATE _____   ACCOUNT NAME_____

RJR _____   ACCOUNT SIGNATURE_____
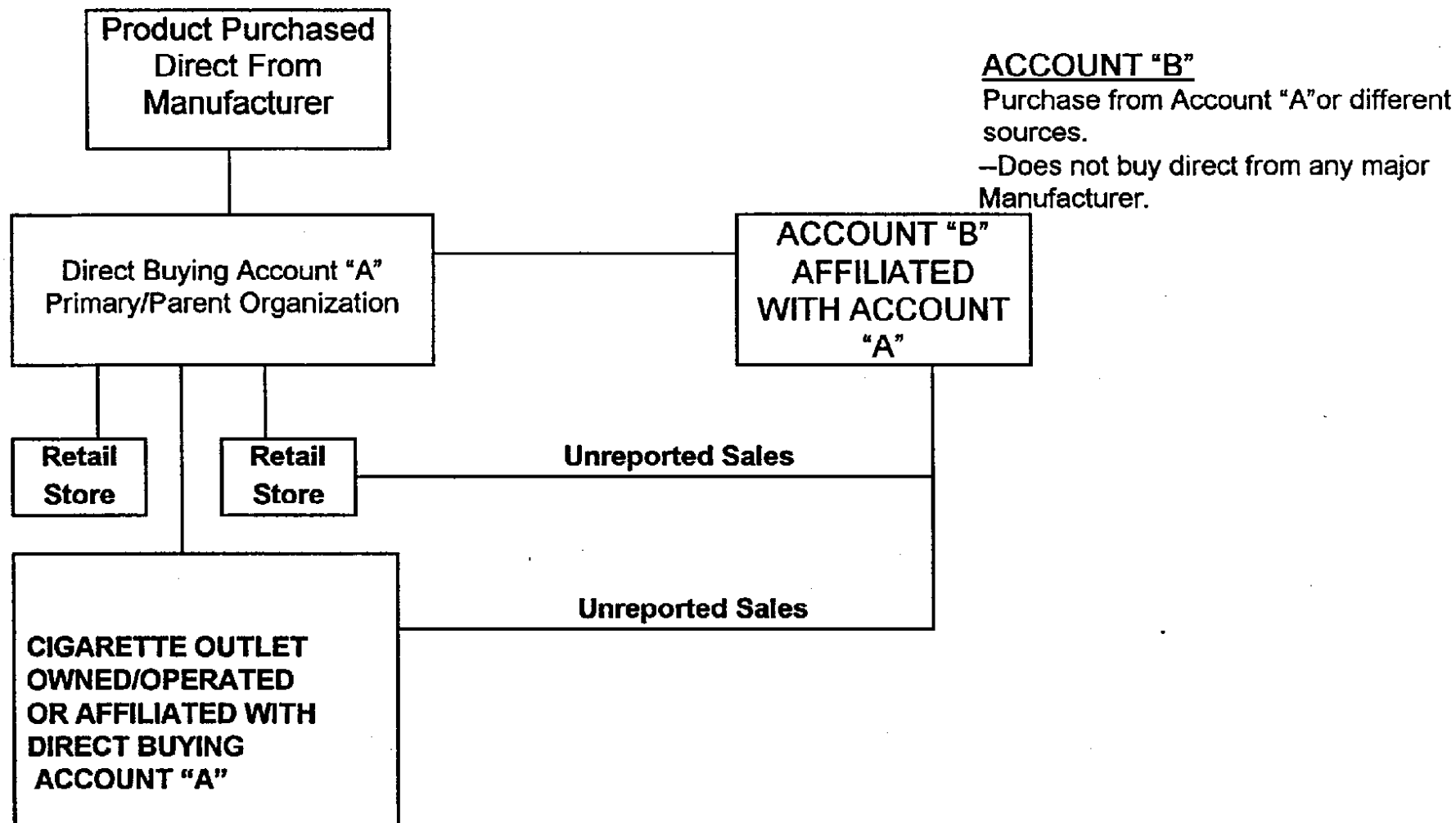   (Signature)

.ITLE_____   TITLE_____

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PRODUCT PURCHASE/SALES FLOW

Example: Direct Account using affiliate account to supply retail with selected brand styles which distorts reported S.O.M. data

```
Product Purchased
Direct From
Manufacturer
```

ACCOUNT "B"
Purchase from Account "A" or different sources.
--Does not buy direct from any major Manufacturer.

```
Direct Buying Account "A"
Primary/Parent Organization
```

```
ACCOUNT "B"
AFFILIATED
WITH ACCOUNT
"A"
```

```
Retail
Store
```

```
Retail
Store
```

Unreported Sales

```
CIGARETTE OUTLET
OWNED/OPERATED
OR AFFILIATED WITH
DIRECT BUYING
ACCOUNT "A"
```
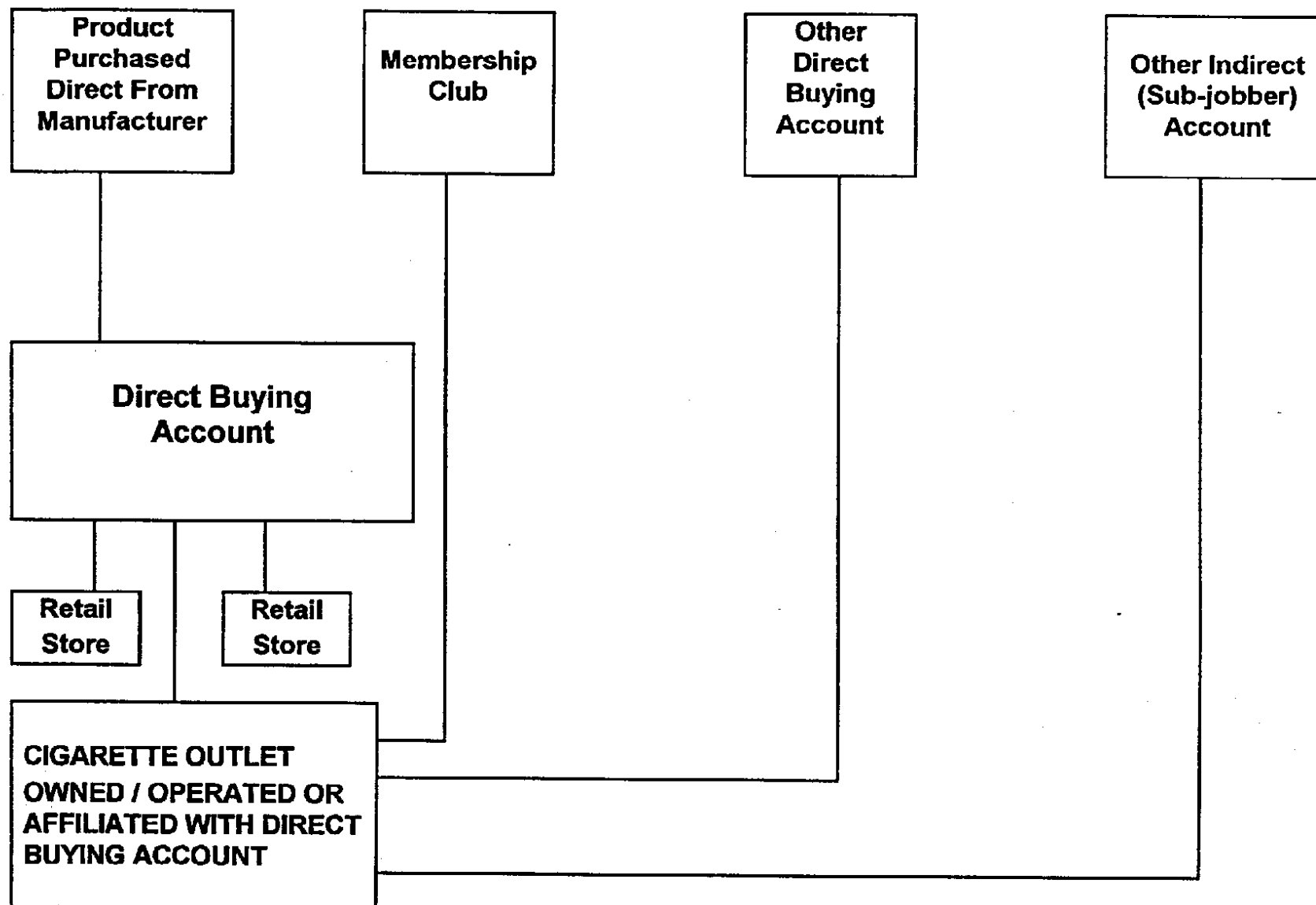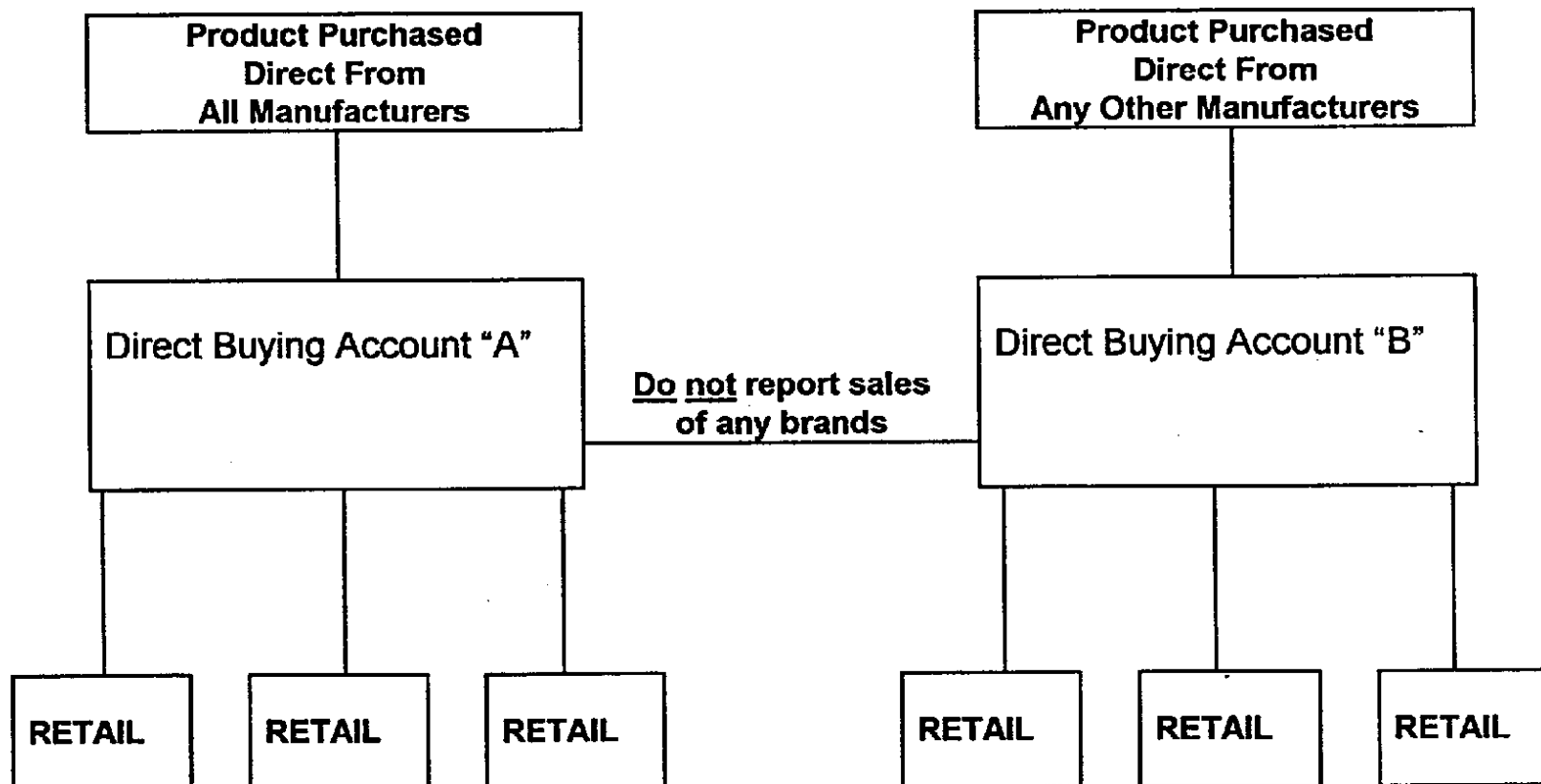
Unreported Sales

PRODUCT PURCHASE/SALES FLOW

Example: Direct Account using other source to supply retail affiliate with selected brand styles which distorts reported S.O.M. data.

```
┌──────────────┐   ┌──────────────┐   ┌──────────────┐   ┌──────────────┐
│   Product    │   │              │   │   Other      │   │              │
│  Purchased   │   │  Membership  │   │   Direct     │   │ Other Indirect│
│  Direct From │   │    Club      │   │   Buying     │   │ (Sub-jobber) │
│ Manufacturer │   │              │   │   Account    │   │   Account    │
└──────────────┘   └──────────────┘   └──────────────┘   └──────────────┘
```

Direct Buying Account

| Retail Store | Retail Store |

CIGARETTE OUTLET OWNED / OPERATED OR AFFILIATED WITH DIRECT BUYING ACCOUNT

PRODUCT PURCHASE/SALES FLOW

Product Purchased Direct From All Manufacturers	Product Purchased Direct From Any Other Manufacturers

Direct Buying Account "A"	Do not report sales of any brands	Direct Buying Account "B"

RETAIL	RETAIL	RETAIL	RETAIL	RETAIL	RETAIL

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CONDITIONS FOR DIRECT BUYING STATUS
CONTINUED

8. Has adequate warehouse space, security and required equipment to effectively and efficiently distribute RJR products.

9. Will approve RJR personnel inspection of warehouse/inventory and/or provide upon request a complete industry inventory to RJR.

10. Will fully agree to authorize RJR audit upon request.

11. Will not disadvantage RJR from a promotion implementation standpoint, if RJR provides the opportunity to match competitive activity.

12. Agree not to deduct amounts from RJR invoices unless specifically authorized by RJR.

13. The Direct Buying Customer must purchase 90% or more of their RJR product (as an ongoing average) from RJR directly versus from other retail sources or other Direct Buying Customers.

14. Other factors which, in the sole judgment of R.J. Reynolds Tobacco Company, are not in the best interest of RJR may jeopardize direct buying status.

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EXPECTATIONS/CRITERIA
TO BE AN RJR DIRECT BUYING CUSTOMER

RJR has always had business practices that we've considered to be fair and equitable to all of our distribution partners. In addition, we have always felt that our direct buying customers treat RJR in a fair and equitable manner as a normal business practice.

We fully believe that virtually all of our Direct Buying Customers abide by the following criteria everyday. Our only intention is to restate the criteria that we believe qualifies an account to be a Direct Buying Customer.

CONDITIONS FOR DIRECT BUYING STATUS

1. Direct Account accepts responsibility for the collection of non-salable RJR products from their retail customers for return to Winston-Salem and ensure the return of only non-salable merchandise.

2. Direct Account is actively improving and/or maintaining sufficient distribution and availability of RJR brands in all retail outlets serviced.

3. Agree to submit appropriate data/information as specified while ensuring that all information/data is accurate if account is an RJR Wholesale Performance Program Participant.

4. Must retain credit worthy status or be viewed as credit worthy for new customer approval.

5. For domestic U.S. direct buying customers with only U.S. based retail customers, RJR export product cannot be bought and resold in any manner.

6. For export/duty free direct buying customer, RJR product must be confined to export or duty free business and not sold for domestic U.S. purposes.

7. Must have a valid State Tax Stamping License(s).

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DIRECT BUYING CUSTOMER REVIEW CONFIRMATION FORM

DIRECT BUYING CUSTOMER / SHIP TO

NAME _____

ADDRESS _____

_____

SIS # _____

DATE REVIEWED _____

REVIEWED WITH (CUSTOMER PERSONNEL)

NAME_____ TITLE_____

NAME_____ TITLE_____

NAME_____ TITLE_____

RJR PERSON(S) THAT REVIEWED (Print)

NAME_____ TITLE_____

NAME_____ TITLE_____

NOTE: RETAIN IN ROU OR OFFICE FILES INDEFINITELY